Subject Index

	Page
Preliminary statement	1
Citation of further opinion below	2
Jurisdiction	2
Questions presented	2
Statement of the case	4
As to misuse	4
As to apportionment of damages	12
As to infringement	13
Argument	14
Respondent's leasing practice does not run counter to the policy and purpose of the patent laws	14
Brulotte v. Thys is clearly distinguishable from this case and was not misinterpreted by the Court of Appeals	15
Petitioner's position as to misuse is anomalous in view of 35 U.S.C. §271(d)	17
There is no conflict in views between the third and ninth circuits	18
No important question of statutory construction is presented here	19
Conclusion	20

Table of Authorities Cited

Cases	Pages
Brulotte v. Thys Co., ... U.S. ....., 13 L.Ed.2d 99, 85 S.Ct. 176	14, 15, 16, 17
F. C. Russell Co. v. Consumers' Insulation Co., 226 F.2d 373 (1955)	18
Scott Paper Co. v. Marcalus Co., 326 U.S. 249	15

Rules

Rules of Supreme Court:	
Rule 19	4

Statutes

35 U.S.C. §112	3, 19
35 U.S.C. §271(d)	17

In the Supreme Court
OF THE
United States

OCTOBER TERM, 1965

No. 222

ATLAS-PACIFIC ENGINEERING COMPANY,
a corporation,
Petitioner,

vs.

GEO. W. ASHLOCK COMPANY,
a corporation,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF FOR RESPONDENT IN OPPOSITION

PRELIMINARY STATEMENT

In this brief we will refer to pages in the brief and petition of the Petitioner as "P.B._____" and to pages in the appendix to the petition and brief of the Petitioner as "P.A._____".

CITATION OF FURTHER OPINION BELOW

In denying Petitioner's motion for summary judgment based upon the single issue of misuse of Respondent's patent in suit, 2,406,736, the District Court entered an opinion prior to the opinion set forth at P.A. 1-31. This earlier opinion is not officially reported but is unofficially reported at 136 USPQ 339, a copy of which is appended hereto as Appendix I.

JURISDICTION

The jurisdictional requisites are adequately set forth in the petition at P.B. 2.

QUESTIONS PRESENTED

The questions presented by the Petitioner are inappropriate under the true facts of this case. Contrary to Rule 23(1)(c) of this Court, the questions presented for review are not expressed in the terms and circumstances of the case. Also, Petitioner, contrary to Rule 23(4) of this Court, has failed to present with accuracy matters which are essential to a ready and adequate understanding of the points which, the Petitioner urges, require consideration.

Thus, Question No. 1 implicitly indicates that Respondent's patent in suit, 2,406,736, which expired on September 3, 1963, was the last valid patent covering Respondent's leased machines. In fact, the last valid patent covering Respondent's leased olive pitting machines is 2,589,324. This patent will not expire until March 18, 1969, a date

which is in excess of three years after the last termination date of the leases in question (P.B. 13), i.e., Respondent's olive pitting machine leases which terminate after the expiration date of 2,406,736 and which are therefore alleged by Petitioner to amount to an extension of the life of 2,406,736 by lease contract.

Also, Question No. 1 refers to Respondent's leases as being "long term" in nature. Respondent's leases of its olive pitting machines are for three year terms. Petitioner's leases of its olive pitting machines are likewise for three year terms. It is common practice in the fruit processing business for the packers or canners to lease much of the processing machinery they require, and a three year lease term is prevalent in this practice.

Question No. 2 implicitly indicates that at the time of alleged infringement, i.e., prior to September 3, 1963, all but one of the valid patents on Respondent's olive pitting machines had expired. However, just prior to that date Respondent had three valid and unexpired patents relating to and covering its leased olive pitting machines. Aside from the patent in suit, 2,406,736, and the above-mentioned 2,589,324, there was a method patent, 2,407,126, which also expired on September 3, 1963, and which covered a pitting method which was practiced by the use of Respondent's olive pitting machines covered by 2,406,736.

Both Question No. 3 and Question No. 4 implicitly represent that the District Court did not make a finding, pursuant to 35 U.S.C. § 112, based upon evidence that Petitioner used a different but mechanically equivalent structure with reference to the "means" clause of Claim

11 of the patent in suit. However, such a finding was made by the District Court.

The only appropriate question presented with reference to patent misuse here is as follows: is the owner of fruit processing equipment which is covered by patents A and B and which is leased for a three year term, a term which is typical and prevalent in the fruit processing equipment business, to be prevented from enforcing patent A when (1) the time terms of the outstanding leases bridge the expiration date of patent A but fall short of the expiration date of patent B and (2) the leases contain no representations that the leased equipment is covered by patents, no promise that the lessee will be protected from competition by infringing machines, and no indication that the rental payments contain any patent royalty component?

It is respectfully submitted that such a question is not of sufficient moment, with reference to the criteria of Rule 19 of this Court, to warrant review by the Court.

The fact matters referred to in this section of this brief will be developed more specifically in the next section of this brief.

STATEMENT OF THE CASE

As to Misuse

Respondent, as plaintiff, brought suit on March 15, 1962, against Petitioner, as defendant, for infringement of 2,406,736 (Pl's Exh. 2, Vol. 17, p. 1)[1] which relates to and

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[1]Volume references are to the record as filed with this Court by the Clerk of the Court of Appeals.

covers a machine for pitting olives (Joint Pre-Trial Order, Vol. 1, p. 83, paragraph 3).

On September 17, 1962, Respondent, as plaintiff, brought suit against Petitioner, as defendant, for infringement of 2,589,324 (Pl's Exh. 4, Vol. 17, p. 2) which relates to and covers cups or chucks for orienting olives into position to be pitted and for holding the olives while they are being pitted in an olive pitting machine (Joint Pre-Trial Order, Vol. 1, p. 83, paragraph 4).

Each suit alleged infringement of each of the two patents because of the manufacture and lease by Petitioner of seven olive pitting machines (Joint Pre-Trial Order, Vol. 1, p. 84, paragraph 12). The two suits were consolidated for trial (Joint Pre-Trial Order, Vol. 1, p. 83, paragraph 2).

Patent 2,589,324 (Pl's Exh. 4, Vol. 17, p. 2) contains four claims asserted by Respondent before the District Court as affording patent coverage as to two of the three sets of olive holding cups or chucks interchangeably employed by Respondent's lessees on Respondent's olive pitting machines (Joint Pre-Trial Order, Vol. 1, p. 90, paragraph 30) (Affidavit, Vol. 1, p. 33, 1st paragraph).

Of the four claims of 2,589,324, only Claims 1 and 3 were involved in the suit for infringement against Petitioner. Claims 1 and 3 were held by the District Court to be invalid and no appeal from this holding was taken by Respondent (Appendix II hereto, an excerpt from page 39 of Petitioner's opening brief on appeal to the Court of Appeals, said brief page having been certified by the Clerk of the Court of Appeals and forwarded to the Clerk of this Court).

Thus, Claims 2 and 4 of 2,589,324 remain to afford patent coverage on Respondent's olive pitting machines, and Claims 2 and 4 will not expire until March 18, 1969 (Joint Pre-Trial Order, Vol. 1, pp. 84-85, paragraph 13), a date which is more than three years after the expiration date of the last to expire of Respondent's leases (P.B. 13) which bridge the September 3, 1963, expiration date of 2,406,736.

Patent No. 2,589,324 is set forth on the patent notice plates which are attached to Respondent's olive pitting machines (Joint Pre-Trial Order, Vol. 1, p. 90, paragraph 29).

In addition to 2,406,736 and 2,589,324, Respondent owned a further patent, 2,407,126 (Pl's Exh. 8, Vol. 17, p. 3) which related to and afforded coverage with respect to a pitting method employed in the use of Respondent's olive pitting machines (P.B. 13). No suit was brought by Respondent against Petitioner for infringement of 2,407,126. Like 2,406,736, 2,407,126 expired on September 3, 1963 (P.B. 13).

In the fruit processing business the packers and canners prefer to lease rather than purchase processing machinery (Letter, Pl's Exh. 87, Vol. 17, p. 50). The most prevalent lease term is 3 years (Appendix I, p. x) (Vol. 14, pp. 1670-1674).

Respondent has never leased any of its olive pitting machines for a period of less than three years and it has never sold any such machine. Prior to 1955 Respondent leased its machines for a period of five years, but since 1955 Respondent's practice has been to lease for a period of three years. In 1959 one of Respondent's lessees re-

quested a five year term lease as to two machines and was given a lease on this basis by Respondent (Appendix I, paragraph 21, p. viii).

Petitioner likewise leases its olive pitting machines for three year terms (Appendix I, p. viii).

The evidence is as follows with respect to Respondent's patents 2,406,736, 2,407,126 and 2,589,324 and Respondent's leasing policy and practice: Respondent's olive pitting machines bear the numbers of each of these three patents; none of Respondent's lessees ever made mention to Respondent as to any one of these three patents; none of Respondent's lessees ever requested that Respondent lease to it an olive pitting machine which was covered by less than these three patents; Respondent has never refused to lease an olive pitting machine and component parts which are covered by less than each of these three patents; and Respondent is not in the business of licensing these three patents but is instead in the business of building and leasing for use olive pitting equipment for the olive packing industry (Affidavit, Vol. 1, pp. 33-34).

The evidence further shows the following with reference to the matter of patents on the one hand and Respondent's leasing policy and practice on the other hand: Respondent obligates itself to assume the defense of any suit for patent infringement based upon the use by its lessees of the equipment leased from Respondent (Lease Form, Def's Exh. AE, Vol. 17, p. 66); Petitioner stipulated to the fact that Respondent's leases contain no promise by Respondent to its lessees to protect the lessees from competition by competitors who used machines which infringed a patent of Respondent's (Vol. 10, p. 1113); under date of

July 5, 1962, Respondent wrote to all of its olive pitting machine lessees a letter (Pl's Exh. 22, Vol. 17, p. 14) to advise them that the rental rate was to be reduced as of September 3, 1963, from 1½ cents to 1¼ cents per pound of olives pitted and that the guaranteed annual minimum rental requirement was to be reduced from $3,750.00 to $3,500.00 (the new rate and the new minimum rental were identical to the rate and minimum rental charged by Petitioner) (Petitioner's Lease, Pl's Exh. 88, Vol. 17, p. 51) for technical reasons having to do with the expiration on September 3, 1963, of one (both 2,406,736 and 2,407,126 expired on that date) of Respondent's patents, and the July 5th letter went on to state to the lessees that the reduced rate and reduced minimum would be accepted by Respondent during the year preceding September 3, 1963, as full payment for the lessees' lease obligations so that they would not feel that they were operating at a rental rate disadvantage in comparison with any other olive pitting equipment, i.e., that of Petitioner, available for leasing; until sometime prior to trial before the District Court Respondent's lease form (Def's Exh. QQ, Vol. 17, p. 61, paragraph 14) called for the acknowledgement by the lessees of the validity of all of Respondent's patents, whether or not they related to olive pitters (Respondent makes and leases a number of types of fruit processing equipment other than olive pitters; Vol. 14, pp. 1673-1674), acquired by Respondent before or during the term of the lease agreement, and the lessee was required to refrain from contesting the validity of any such patent as long as it was in force and irrespective of whether or not the lease agreement was in force; sometime prior to trial before the District Court this acknowledg-

ment of validity clause was modified (Rider to Lease, Def's Exh. AE, Vol. 17, p. 66) to limit it to patents covering or relating to the leased machines and to further limit it to the term, or any renewal of, the lease; Respondent's lease form provides (Def's Exh. AE, Vol. 17, p. 66, paragraph 11) that Respondent has the option to intervene in and conduct the defense of any suit or proceeding against the lessee which affects any patents involving the leased equipment; and Petitioner represented to the District Court during the trial of the suit for infringement of 2,589,324 that the patent number marking plate applied by Respondent to the various types of fruit processing equipment leased by it contained the numbers of twenty-two of Respondent's patents, only three of which related to Respondent's olive pitting machines.

The evidence is as follows with reference to the matter of Respondent's leased olive pitting machines on the one hand and Respondent's leasing policy and practice on the other hand: that all of Respondent's olive pitting machines are fully owned by Respondent (Affidavit, Vol. 1, p. 33); that Respondent's lessees have not objected to multiple year leases of its olive pitting machines (Affidavit, Vol. 1, p. 34); that the insurance coverage on Respondent's leased olive pitting machines is carried by and paid for by Respondent (Lease Form, Def's Exh. AE, Vol. 17, p. 66, paragraph 7) (Vol. 14, p. 1620); that Respondent's olive pitting machines are fully overhauled on the average every two and one-half years at an average out of pocket expense to Respondent of $1,400.00 per machine overhaul, that after being so overhauled the machines are equal to brand new machines, that if improvements are made in Respondent's olive pitting machines such improvements

are incorporated into particular machines when the latter are returned to Respondent's plant for overhauling (Vol. 10, pp. 1120-1122); and that all of Respondent's olive pitting machines which were under leases, the terms of which extended beyond the expiration date of 2,406,736, were recapitalized on June 15, 1960, when Geo. W. Ashlock Company, a Delaware corporation, acquired by purchase its predecessor in interest, Geo. W. Ashlock Company, a California corporation, and that on the new capitalization basis none of Respondent's olive pitting machines will be fully amortized until after the expiration of all of those leases which bridge the expiration date of 2,406,736 (Pl's Exh. 18, Vol. 17, p. 11) (Vol. 14, p. 1629).

In the suit against Petitioner for infringement of 2,589,324, Petitioner raised a misuse defense which it explained to the District Court as follows:

> "In the second suit, I don't know that Your Honor is acquainted with our position with respect to misuse on that, the second suit and the second, or chuck patent, that patent does not expire for a period of several years. We don't have the same problem. Our position on that is simply this. There is an illegal tie-in. The plaintiff, in effect, says you can use my chucks only if you take my machine, and we believe under the Ninth Circuit cases that constitutes a tie-in, not necessarily an infraction of the anti-trust laws, but nevertheless, an infraction or misuse." (Vol. 2, pp. 72-73)

Finding of Fact 28 (P.A. 27-28) states in part as follows:

> "Mr. Margaroli's (Mr. Margaroli is a vice-president and the business manager of Respondent, Vol. 6, p.

575 testimony was to the effect that none of the plaintiff's lessees had ever to his knowledge requested the lease of less than an entire olive pitting machine of the plaintiff or of the plaintiff's predecessors."

Petitioner's vice-president Loveland testified (the subject of the testimony being the propriety of apportionment of damages) as follows with respect to the relationship of the cups, or chucks, of 2,589,324 to the balance of Respondent's olive pitting machine:

> The Court: Have you provided for any cost for any cup?
>
> The Witness: Not for any cup, no.
>
> The Court: How are you going to run this machine without a cup?
>
> The Witness: Well, actually, the conveyor is an old feature of the machine.
>
> The Court: You couldn't use that cup for any other purpose on earth, could you?
>
> The Witness: No, you couldn't (Vol. 15, p. 13).
>
> • • • • • • •
>
> The Court: Can you use this conveyor for anything else?
>
> The Witness: The conveyor for anything else?
>
> The Witness: The conveyor itself is used on their cherry-pitting machine, but not the cup. The conveyor system is basically the same.
>
> The Court: What I am driving at, as far as the lessee is concerned, it is pretty difficult for him to go out and buy the remaining parts, such as the conveyor or anything else, and he finds himself in a position where the cheapest way to do it is to lease the whole machine, and if he were to lease certain aspects of the machine and then go out and buy other

parts or lease other parts, he would probably be faced with greater cost, wouldn't he?

The Witness: That is correct. It is best to lease the package. (Vol. 15, pp. 16-17.)

It was in the light of the foregoing factual background, with reference to the misuse defense in the suit based upon 2,406,736, that the District Court entered Finding of Fact 26 (P.A. 27) to the effect that Respondent's three year leasing policy was lawful per se, that it was independent of and apart from 2,406,736, and from relief for infringement thereof sought by Respondent, thereby, in effect, reaffirming what it had said in an earlier opinion (Appendix I, p. xi) denying Petitioner's motion for summary judgment of misuse, i.e.:

"In the instant case there is nothing to indicate that the patent itself had any practical relationship with the three year term of the leases or with the fact that some of the leases extend beyond the expiration of the patent. Considerations other than the patent, including plaintiff's prior practice, the practice prevalent in the industry (as manifested in part by the defendant's own three year leasing policy), amortization of cost of machines to plaintiff, the right to overhaul and install improvements on them and other similar considerations may very well have been the factors which prompted plaintiff to adopt a three year basis for all of its leases. Certainly this would be in line with its earlier history going back to 1946".

As to Apportionment of Damages

Apportionment of damages is the subject to which the second question presented by Petitioner relates. The second question is predicated upon Petitioner's contention

that at the time of infringement all but one of the valid patents on Respondent's machines had expired. Since, as shown above, Respondent had three unexpired and valid patents at the time of Petitioner's infringement of 2,406,736, further treatment of the subject of apportionment will be left to the argument section of this brief.

As to Infringement

Infringement is the subject to which the third and fourth questions presented by Petitioner relate. Essential to each of these questions are two contentions made by Petitioner.

The first contention (P.B. 7-8) is that in the absence of the coring knife spring and its mode of operation the patented machine will not operate to pit olives, reference being had to the testimony of Respondent's vice-president Hesse. However, Mr. Hesse testified at length and in specific detail (Vol. 3, from line 22, p. 133, through line 14, p. 165) that in 1962 test work was conducted in Respondent's plant which clearly established that olives were efficiently and satisfactorily pitted when the coring knife spring was removed and replaced with a spacer element which solidly supported the coring knife. Petitioner's vice-president Loveland and Petitioner's attorney, Mr. Gregg, witnessed some of the test runs of the patented machine, so modified (Vol. 3, from line 10, p. 153, through line 4, p. 160).

The second contention in support of Petitioner's third and fourth questions is that no finding was made that Petitioner's structure employs an equivalent of Respondent's coring knife spring, i.e., "means for then moving

said plunger and knife in the same direction transverse to said conveyor and at substantially the same rate." However, such a finding was made by the District Court (Finding of Fact 24, from line 28, P.A. 25, through line 22, P.A. 26). The key portion of that finding reads as follows:

> "The substitution of such as the force of gravity or the force of inertia for the force of a spring, and here there was only a partial substitution in the sense that plaintiff's spring plus inertia force was replaced by the force of inertia alone, when as here, the one substituted for the other accomplishes the same result in substantially the same way amounts to what has long been regarded as the substitution of one typical equivalent for another."

ARGUMENT

The petition for writ of certiorari should be denied, the decision of the Court of Appeals affirming that of the District Court being proper and just and in full harmony with all previous decisions of this Court, there being no important question of federal law presented to this Court, and there being no conflict between the decision of the Court below and any decision of another Court of Appeals.

RESPONDENT'S LEASING PRACTICE DOES NOT RUN COUNTER TO THE POLICY AND PURPOSE OF THE PATENT LAWS

In *Brulotte v. Thys Co.*, —— U.S. ——, 13 L.Ed.2d 99, 85 S.Ct. 176, this Court quoted with approval the fol-

lowing language from *Scott Paper Co. v. Marcalus Co.*, 326 U.S. 249, 256:

> "* * * * any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws."

The existence of Respondent's patent 2,589,324 (Claims 2 and 4 of this patent are valid, are incorporated into Respondent's leased machines, and will not expire until 1969) prevents the grant of those three year leases which bridged the expiration date, September 3, 1963, of 2,406,736 from running counter to the policy and purpose of the patent laws because the term of each lease is completely contained within the term of a patent.

BRULOTTE v. THYS IS CLEARLY DISTINGUISHABLE FROM THIS CASE AND WAS NOT MISINTERPRETED BY THE COURT OF APPEALS

In *Brulotte* the machines in question were sold to the petitioners and the use of the machines was licensed under a seventeen year royalty agreement which listed the twelve patents licensed.

Here, the machines in question are owned outright by Respondent, and are leased for three year terms which is the prevalent industry practice. The leases do not purport to be patent licenses (no patents are listed in the leases) and the rentals do not purport to be royalties. The leases contain acknowledgement of patent validity clauses and the machines bear patent marking plates listing the numbers of twenty-two patents, only three of which re-

late to and cover the olive pitting machines, but the validity clauses taken together with the marking plates do not convert the leases into patent licenses.

Respondent at its own expense periodically repairs, maintains, improves and insures its olive pitters.

In *Brulotte*, all seven of the patents incorporated into the machines had expired when the respondent sought to enforce royalty payments under the contracts.

Here, when Respondent sought to enforce its rights under 2,406,736, that patent, as well as 2,407,126 and 2,589,324, was unexpired.

The Court below correctly interpreted (footnote 1, P.A. 34) *Brulotte v. Thys Co.*, —— U.S. ——, 13 L.Ed.2d 99, 85 S.Ct. 176.

The Court below observed, correctly, that the District Court awarded damages restricted to the pre-expiration period of 2,406,736 and that this Court in *Brulotte* permitted the respondent to collect royalties which accrued before the last of the patents incorporated into the machines had expired.

Petitioner argues that a refusal of apportionment by the Court of Appeals flies in the face of the rationale of *Brulotte*. This is not so.

The rationale of *Brulotte* is not what Petitioner says it is at P.B. 17, but is rather: when the last of a number of patents incorporated into a machine expires, the patent owner cannot obtain royalties or damages for a period after the date of expiration of the last patent. This rationale of *Brulotte* is fully compatible with a refusal of apportionment, as the Court below perceived.

Petitioner argues that the Court of Appeals' second distinction over *Brulotte,* that there was no significant relationship between the patent in suit and Respondent's leasing practice, is not a valid distinction because: Respondent's leases contained an acknowledgement of validity of patents clause; and Respondent sought post-expiration injunctive relief and post-expiration damages (which were refused by the District Court).

When the Courts below held that the relationship between Respondent's three year leasing policy and its patent was not "significant" what they meant was that the leasing practice was not being used to extend the monopoly of 2,406,736 (footnote 1, P.A. 34) (Finding of Fact 26, P.A. 27).

PETITIONER'S POSITION AS TO MISUSE IS ANOMALOUS IN VIEW OF 35 U.S.C. §271(d)

At P.B. 21, Petitioner states that it is not necessary to decide, and that Petitioner does not ask the Court to decide, that long term leases are illegal per se. Petitioner's position that 2,406,736 has been misused is therefore anomalous in view of 35 U.S.C. §271(d) which reads in pertinent part as follows:

> "No patent owner entitled to relief for infringement * * * of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done * * * the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

Further, at P.B. 21 Petitioner asks the Court to determine: whether long term leases entered into before a

lessor's patents have expired and which protect the position of the patentee both before and after his patents have expired, and which exact the same rentals before and after expiration, constitutes the defense of misuse in a suit for infringement of the last remaining valid patent.

That question is not before this Court because: Claims 2 and 4 of 2,589,324 are valid and will not expire until 1969; and Respondent has no lease extending past the expiration date in 1969 of 2,589,324 and so there is no long term lease which exacts the same rentals before and after expiration of 2,589,324.

THERE IS NO CONFLICT IN VIEWS BETWEEN THE THIRD AND NINTH CIRCUITS

At P.B. 19, Petitioner argues that the view of the Courts below (that Respondent's leasing practice was not used to extend the monopoly of 2,406,736) conflicts with the view of the Court of Appeals for the Third Circuit in *F. C. Russell Co. v. Consumers' Insulation Co.*, 226 F.2d 373, 376 (1955), but Respondent respectfully submits that there is no such conflict.

In *Russell* there was involved sales or distributorship agreements in writing wherein patents, including the patent there in suit, were recited as the means whereby the patent owner controlled the manufacture and distribution of its combination storm and screen windows. The distributorship agreements obligated the distributors not to merchandise or offer for sale any goods which would be competitive with appellant's storm and screen windows.

The Court of Appeals held that the obligation not to deal in competitive goods enabled the appellant to enhance the monopoly of the patent in suit and that there was misuse arising out of the relating of the patent in suit to the obligation through the common purpose for each of controlling the manufacture and distribution of appellant's windows.

In the subject case the Court of Appeals held that the three year leases were not related significantly enough to the patent in suit to warrant a finding that the three year leases were designed or used to extend the monopoly of 2,406,736.

NO IMPORTANT QUESTION OF STATUTORY CONSTRUCTION IS PRESENTED HERE

At P.B. 21-22, Petitioner urges that an important question of statutory construction is presented under the third paragraph of 35 U.S.C. §112 (quoted at P.B. 21-22). Petitioner would have this Court believe that the District Court made no finding that Petitioner's structure employs an equivalent of Respondent's coring knife referred to in the "means" clause of Claim 11 of 2,406,736. As has been pointed out above the District Court made such a finding of equivalency under 35 U.S.C. §112 (Finding of Fact 24, from line 28, P.A. 25, through line 22, P.A. 26).

CONCLUSION

It is respectfully submitted that the petition for writ of certiorari should be denied.

Dated, San Francisco, California,
June 21, 1965.

Respectfully submitted,
FRANK A. NEAL,
Counsel for Respondent.

JAMES M. NAYLOR,
KARL A. LIMBACH,
Of Counsel.

(Appendices I and II Follow)

Appendix I

District Court, N. D. California, S. Div.

GEO. W. ASHLOCK COMPANY v. ATLAS-PACIFIC ENGINEERING COMPANY

No. 40581 Decided Jan. 22, 1963

PATENTS

1. Misuse of patents—In general (§ 45.01.)

Doctrine of misuse extends only to those cases where realistic analysis shows that patent itself significantly contributes to practice under attack; thus, patent is not misused as a matter of law where patent owner never has sold patented machines and refuses to lease them for less than three years and although many leases extend beyond term of patent since there is nothing to indicate that patent has any practical relationship with three year term of leases or with fact that some of them extend beyond expiration of patent; considerations other than the patent, including patent owner's prior practice, practice prevalent in the industry, amortization of cost of machines to patent owner, right to overhaul and install improvements on them, and other similar considerations, may very well have been the factors prompting patent owner to adopt three year basis for all of its leases; court notes that no representation is made in leases that machines are patented, no promise is made to protect lessees from competition by infringing machines, and rental payments contain no patent royalty component.

Particular patents—Pitting Machine

2,406,736, Ashlock, Pitting Machine, misuse not found.

Action by Geo. W. Ashlock Company against Atlas-Pacific Engineering Company for patent infringement. On defendant's motion for summary judgment. Motion denied.

NAYLOR & NEAL, JAS. M. NAYLOR, and FRANK A. NEAL, all of San Francisco, Calif., for plaintiff.

EDWARD B. GREGG and MELVIN R. STIDHAM, both of San Francisco, Calif., for defendant.

ZIRPOLI, District Judge.

This matter comes before the Court on defendant's motion for summary judgment based upon the single issue of misuse of plaintiff's patent monopoly.

The parties hereto, through their counsel, entered into the following stipulation of facts concerning defendant's assertion of patent misuse:

1. The parties are Geo. W. Ashlock Co., a corporation, plaintiff, and Atlas-Pacific Engineering Company, a corporation, defendant.

2. This Court has jurisdiction of the parties and the subject matter and has jurisdiction to try and determine the issue of misuse.

3. Ashlock Patent No. 2,406,736 is the patent in suit.

4. The patent in suit is owned by plaintiff, which has the right to enforce the patent against an infringer subject to determination of the issue of misuse and subject to such other defenses as defendant may have.

5. The patent in suit was granted September 3, 1946 on an application filed March 31, 1944.

6. The patent in suit expires September 3, 1963.

7. The patent in suit is on an olive pitting machine.

8. The parties are competitors in the manufacture of olive pitting machines and in the leasing of these machines to olive packers.

9. At the present time and for many years, all olive packers except one (Lindsay Ripe Olive Company) have leased all of their olive pitting machines.

10. Lindsay Ripe Olive Co. manufactures its own olive pitting machines for its own use and does not lease or sell the same to any other olive packer.

11. From about 1946 until the end of the 1960-61 season, all olive packers in the U.S.A. except Lindsay Ripe Olive Co. leased all of their olive pitting machines from plaintiff. One olive packer in Tijuana, Mexico, has leased and presently has under lease from plaintiff one of plaintiff's olive pitting machines.

12. Defendant designed and built a single prototype olive pitting machine and leased it to Libby, McNeil and Libby for use at that company's plant in Sacramento, California, during the 1961-62 season.

13. All other olive pitting machines used during the 1961-62 season (except for those of Lindsay Ripe Olive Co.) were leased from plaintiff.

14. Defendant has built six production type olive pitting machines and has leased them for the 1962-63 season as follows:

Lessee	No. of Def's Machines
Libby, McNeil & Libby	3
Pacific Olive Company	2
Oberti Olive Company	1
Total	6

15. Plaintiff has in force the following leases of its olive pitting machines:

Lessee	Term of Lease From	To	No. of Years	No. of Machines
Bell Packing Company 1045 Folger Avenue Berkeley, California	6- 1-59	6- 1-64*	5	2
Contadina Foods, Inc. P. O. Box 207 San Jose, California	11-15-60	11-15-63*	3	1
Evans Honey Company 2811 Clearwater Street Los Angeles 3, California	11- 1-60	11- 1-63*	3	1
Cristo Fusano & Sons 13143 San Fernando Road San Fernando, California	5-15-60	5-15-63	3	1
B. E. Glick & Sons Corning, California	9- 1-62	9- 1-65*	3	1
Industrias Olivareras, S.A. Aparado Postal No. 230 Tijuana, B. CFA., Mexico	2- 1-62	2- 1-65*	3	1
Libby, McNeil & Libby 455 Beach Street San Francisco, Calif.	11-15-62	11-15-65*	3	2
Libby, McNeil & Libby P. O. Box 3512 San Francisco 19, Calif.	11-15-60	11-15-63*	3	4
Maywood Packing Company Corning, California	1-15-61	1-15-64*	3	1
Oberti Olive Company P. O. Box 899 Madera, California	9- 1-60	9- 1-63	3	1
Oberti Olive Company P. O. Box 899 Madera, California	9- 1-61	9- 1-64*	3	3
Orinda Olive Corporation P. O. Box 352 Orinda, California	11- 1-61	11- 1-64*	3	1
Olive Products Company P. O. Box 191 Oroville, California	9- 1-60	9- 1-63	3	1
Pacific Olive Company P. O. Box 71 Visalia, California	9- 1-60	9- 1-63	3	4

Lessee	Term of Lease From	To	No. of Years	No. of Machines
Rocca Bella Olive Assn. P. O. Box 188 Wallace, California	9- 1-61	9- 1-64*	3	2
V. R. Smith Olive Co. Lindsay, California	10- 1-61	10- 1-64*	3	2
Spencer Food Company 1307 Goodrich Blvd. Los Angeles 22, Calif.	4- 1-62	4- 1-65*	3	1
Sunland Olive Co., Inc. P. O. Box 86 Terra Bella, California	9- 1-62	9- 1-65*	3	2
Tri-Valley Packing Assn. 240 Battery Street San Francisco, California	11- 1-61	11- 1-64*	3	1
Westgate California Corp. 1955 Bay Front San Diego, California	9- 1-61	9- 1-64*	3	2
Wyandotte Olive Growers Association Oroville, California	9- 1-62	9- 1-65*	3	3

Those leases which expire after September 3, 1963, the expiration date of the patent in suit, are marked with an asterisk. There as 17 such leases out of a total of 21 leases covering 30 out of 37 machines.

16. To the knowledge of the parties hereto, the lists of lessees and leased olive pitting machines in paragraphs 14 and 15 hereof account for all of the olive pitting machines in the United States except for the machines owned and operated by Lindsay Ripe Olive Co. in its own plant or plants.

17. Accurate copies of plaintiff's and defendant's leases are attached as Exhibits A and B, respectively. Attached as Exhibit C is a copy of a letter which was sent by plaintiff to its lessees to modify the rental terms of its leases.

18. V. R. Smith Olive Company had a three year lease for one or more olive pitting machines from plaintiff which expired in the fall of 1961. Said V. R. Smith Olive Company sent a letter to plaintiff on September 27, 1961 as follows:

"Gentlemen:

Referring to an equipment lease which we recently received from you we would say that we have a previous agreement with your company to operate pitting machine on a year to year basis, and if that is agreeable with you we will be glad to sign on that basis."

Mr. John Margaroli, a vice-president of plaintiff, testified as follows regarding this letter and the transaction between plaintiff and V. R. Smith Olive Company, such testimony appearing at page 100, line 15, to page 101, line 1 of John Margaroli's deposition taken October 11, 1962:

Q. "Now, what was your understanding of Mr. Smith's inquiry or request as I have read it to you?

A. Well, I—well, when I received that letter I contacted Mr. Smith immediately by phone and I told him that he was in error, he never did have a lease that gave him this option.

Q. Well, did that letter suggest to you that he wanted that sort of thing, that he wanted a year to year lease?

A. Well, that is the only interpretation that anybody could deduce from that letter.

Q. And you told him that he couldn't have it, didn't you?

A. That's right."

19. Lindsay Ripe Olive Company had a three year lease for one olive pitting machine from plaintiff which

expired November 15, 1961. Shortly before such date said Lindsay Ripe Olive Company requested plaintiff to renew or extend such lease for a period of one year because Lindsay had need for the leased machine of plaintiff for one more year while it was building another machine of its own, the reason being that Lindsay's own machines, then in operation, would not pit certain types of olives satisfactorily. Plaintiff did not consent to a one year extension.

20. John L. Margaroli, a vice president of plaintiff believes (and would so testify if called as a witness) that in response to Lindsay Ripe Olive Company's request for a one year lease renewal or extension he said that he might consider giving said Lindsay Ripe Olive Company a two year extension of its lease (which would have extended the lease to November 15, 1963), but Messrs. Kimball and Webster (both employees of Lindsay Ripe Olive Company) have stated (and would so testify if called as witnesses) that they participated in the negotiations with plaintiff through Mr. Margaroli for an extension of the said lease and that neither of them recalls that Mr. Margaroli (nor any other representative of the plaintiff) made mention of a two year extension of the lease. The aforesaid lease was allowed to terminate on November 15, 1961 and has never been renewed nor has any new lease been entered into with said Lindsay.

21. Plaintiff has never granted a lease of its olive pitting machines for a period of less than three years and it has never sold any such machine. Prior to 1955 plaintiff's practice was to lease for a period of five years and since 1955 its practice has been to lease for a period of

three years. All of plaintiff's presently existing leases of its olive pitting machines are on a three year basis with the exception of a five year lease of two machines to Bell Packing Company; the lease to Bell was given in 1959 responsive to the request of Bell Packing Co. for a five year lease.

22. It is further stipulated, but only for the purposes of this misuse proceeding that: it is common practice in the fruit processing business for the packers or canners to lease much of the processing machinery they require, where the lease is for a term of a number of years. A three year leasing period is prevalent in this practice. Defendant leases its olive pitting machines on a three year basis.

23. It is asserted by plaintiff (and it is admitted by defendant but only for purposes of this misuse proceeding) that the patent in suit, No. 2,406,736, covers all of the olive pitting machines that are presently leased by plaintiff.

24. U.S. Patent No. 2,589,324 issued on March 18, 1952 and expiring on March 18, 1969 relates to a pitting chuck for use on an olive pitting machine to hold an olive while it is being pitted. In response to an interrogatory (Defendant's Interrogatory No. 62) asking plaintiff what substantial improvements plaintiff had made in its olive pitting machine, during the period 1945 to 1961-62, plaintiff listed a number of improvements but did not list the device of Patent No. 2,589,324. Plaintiff, however, sets forth Patent No. 2,589,324 along with other patents on the patent notice plate which has been and is attached to its olive

pitting machines. The patent in suit, No. 2,406,736, is referred to in the specification of Patent No. 2,589,324.

25. With regard to said Patent No. 2,589,324 which does not expire until March 18, 1969, it is stipulated as follows but only for the purpose of this misuse proceeding:

(a) Said patent No. 2,589,324 covers two types of chucks (the so-called OP 310 and the so-called OP 313 chucks) which are used on plaintiff's machines much or most of the time. Plaintiff also uses another chuck, the OP 109 chuck, on its machines. The OP 109 chuck is not covered by any patent.

(b) The patented OP 310 and OP 313 chucks are used, respectively, for the larger and smaller olives. The unpatented OP 109 chucks are used for the intermediate sizes of olives.

26. It is further stipulated but only for the purposes of this misuse proceeding that: In 1960, Ashlock then a sole proprietorship, was acquired by purchase by the Ohrstrom Company. At the time of such acquisition the acquired assets, including all of the olive pitting machines, were recapitalized. With respect to this new capitalization basis none of said olive pitting machines will become fully amortized until the year 1966. All of plaintiff's presently existing leases which extend beyond September 3, 1963, the date of expiration of Patent No. 2,406,736 (the patent in suit), will have expired prior to said year of 1966.

27. Of the three types of olive holding cup or chuck used on plaintiff's olive pitting machine (on unpatented

OP 109 chuck and the OP 310 and OP 313 cups which are asserted by plaintiff to be covered by Patent No. 2,589,-324), the OP 310 cups are the most expensive and a set of these cups for a machine costs in the neighborhood of $800.00.

Defendant's "basic contention" is that plaintiff has adopted the exclusive policy of leasing for a term not less than three years, has heretofore refused to lease for a shorter term, and that many of its leases extend beyond the term of the patent.

After reviewing the stipulated facts, the Court cannot say as a matter of law that the leasing practices of the plaintiff for its olive pitting machines constitute a misuse of the patent monopoly of such character as to be a complete defense to the patent infringement action.

The stipulated facts show that it is common practice in the fruit processing business for the packers or canners to lease much of the processing machinery they require, and that a three year leasing period is prevalent in this practice. No representation is made in the leases that the leased machines are patented, and no promise is made to protect the lessee from competition by infringing machines. The rental payments made under the leases contain no patent royalty component. While plaintiff on at least two occasions refused to lease its machines to processors for a period of less than three years, this in itself is not unreasonable, where such three year term is prevalant in the industry, and it has never been the practice of plaintiff to lease its machines for less than three years. Furthermore, an analysis of the reasons for

such refusal to lease for less than three years discloses that on one occasion a lessee requested a year-to-year renewal of an existing lease in the belief that the existing lease so provided, and on another occasion the lessee requested a renewal lease for a one year period while it constructed a machine of its own to do the job of the leased machine.

The better rule appears to be that the doctrine of misuse should extend only to those cases where a realistic analysis shows that the patent itself significantly contributes to the practice under attack. In the instant case there is nothing to indicate that the patent itself had any practical relationship with the three year term of the leases or with the fact that some of the leases extend beyond the expiration of the patent. Considerations other than the patent, including plaintiff's prior practice, the practice prevalent in the industry (as manifested in part by the defendant's own three year leasing policy), amortization of cost of machines to plaintiff, the right to overhaul and install improvements on them and other similar considerations may very well have been the factors which prompted plaintiff to adopt a three year basis for all of its leases. Certainly this would be in line with its earlier history going back to 1946.

It is apparent to the Court that on the record presently before it, it cannot say as a matter of law there has been a misuse of the patent in suit. Should the evidence in the course of the trial indicate that the patent itself significantly contributed to the leasing practice under attack, the Court might be disposed to take a different view than that presently expressed. Absent such clear and convinc-

ing evidence at this time, the Court must and does conclude, without prejudice to the defendant to prove otherwise in the course of the trial, that plaintiff has not misused its patent monopoly.

Accordingly, the Court enters the following order:

1. Defendant's motion for summary judgment is denied without prejudice to the defendant to prove during the course of the trial that plaintiff has misused its patent monopoly;

2. The hereinabove set forth stipulated facts numbered 1-21, 24 and 27 are specified as being established for subsequent pre-trial and trial proceedings.

Appendix II

In the case at bar, the only unexpired patent on the Ashlock olive pitting machine is Patent No. 2,589,324, which was sued on with the '736 patent here involved. Claims 1 and 3 of that patent (the only claims asserted to be infringed) were held invalid and no appeal has been taken. The situation is, therefore, as follows:

Ashlock presently has no patent on its machine except a flabby patent which has been litigated adversely; yet Ashlock continues to hold seventeen lessees operating thirty machines in thralldom, not because of its legitimate rights under the patent laws but because of contracts forced upon the lessees during the life of the patent here involved. (From p. 39 of Petitioner's opening brief on appeal to the Court of Appeals).